

NATIONAL OUTLOOK

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OCTOBER 14, 2021

Office of State Budget Director

Key Differences in the IHS Markit Forecast

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- GDP growth revised down
 - ▣ Real GDP growth in FY22Q1 revised down from 7.5% to 3.4%
 - ▣ Continued rapid spread of Delta variant slowing recovery in consumer spending
 - ▣ Further cuts to vehicle production due to ongoing shortages of computer chips
- Inflation forecast stabilized
 - ▣ Headline PCE Inflation measures at 2.1% in FY23 and FY24
 - ▣ Prices of food, energy, and motor vehicles retreat with recovering supplies, anchoring long-run inflation near Federal Reserve target rate of 2%
- Infrastructure Investment and Jobs Act now included in baseline forecast

Control Scenario

(Probability – 50%)

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- GDP growth rises to 5.1% in FY2022 and 3.4% in FY2023
 - ▣ Growth projections in FY22 reduced
 - Deceleration of PCE-services expenditures in response to continued spread of Delta variant of COVID-19
 - Downward revision in projected sales and assembly of vehicles
 - Inventory investment reduced by supply chain issues
 - ▣ Growth lost in FY2022 shifted out to FY2023
- Federal Reserve maintains Federal Funds rates near 0% through FY2023Q1 with asset purchases tapering into FY2023
- Increases in Brent oil prices, as oil expected to be \$68.59/bbl in FY2022Q2, reduced slightly to \$66.95 in FY2023Q1

Optimistic Scenario

(Probability – 20%)

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- GDP growth increases to 6.7% in FY2022 and 4.5% in FY2023
 - ▣ Consumer response to recent and upcoming stimulus exceeds baseline forecast
 - ▣ Widespread vaccination and adherence to safety guidelines results in significantly quicker decline in new COVID cases and deaths
- Employment increases by 4.8% in FY2022
- Unemployment rate down to 4.2% by FY2022Q4
- Real Consumer Spending increase by 7.6% in FY2022
- Global economy recovers from COVID impacts more quickly than baseline forecast

Pessimistic Scenario

(Probability – 30%)

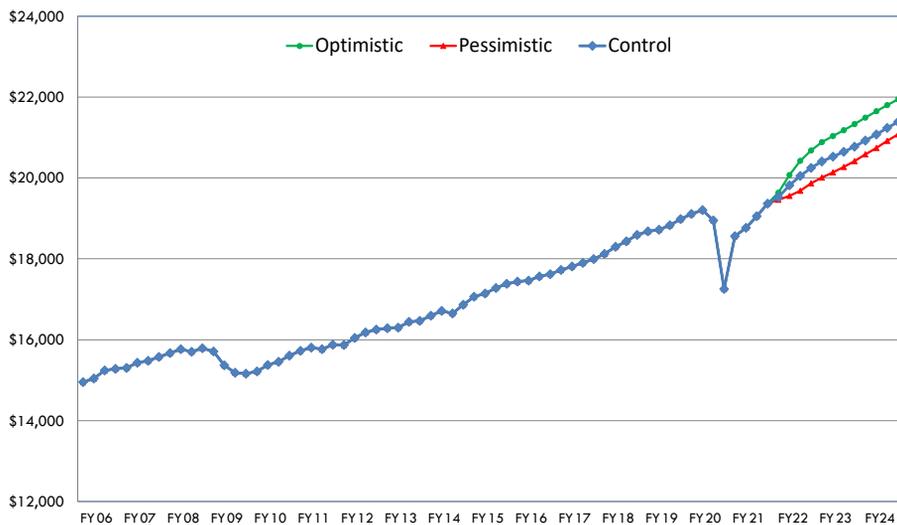
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- GDP growth rises to 3.7% in FY2022 and 2.9% in FY2023
 - ▣ Resurgent virus and significant increase in cases and hospitalizations
 - ▣ Employment impacted by continued delays in opening and availability of daycare and impacted in-person learning
- Consumer spending increases 3.9% in FY2022 and 2.4% in FY2023, as spending is tempered
- Consumer hesitancy results in scaled back business investment
- Employment increases by 3.9% in FY2022
- Unemployment rate down to 4.3% by FY2022Q4
- Global economy continues to experience setbacks in recovering from COVID-related impacts

Real GDP

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

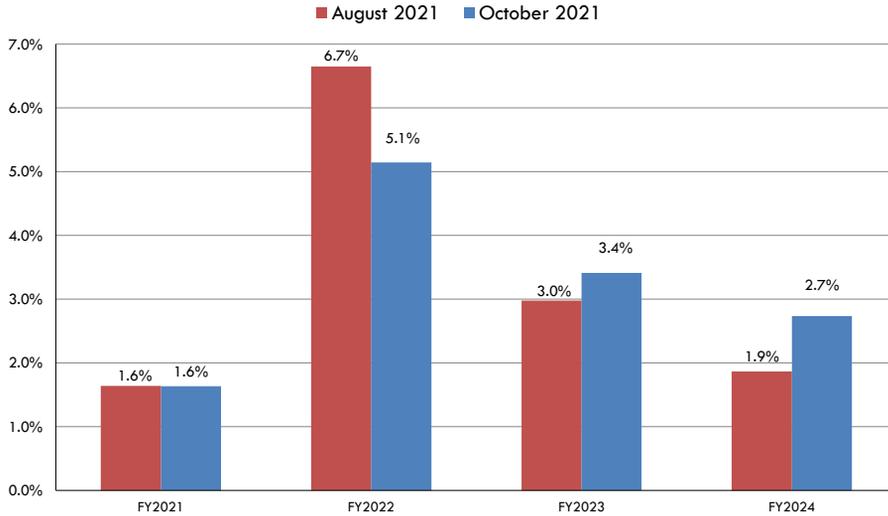
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Real GDP – Control Forecast

(IHS Markit, Annual Growth Rates)

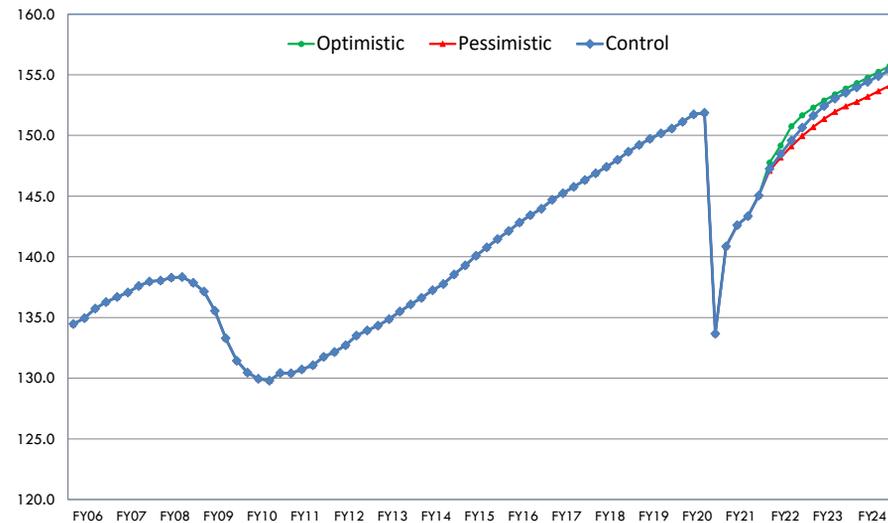
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U.S. Employment – Total Non-Farm Payrolls

(Millions, BLS)

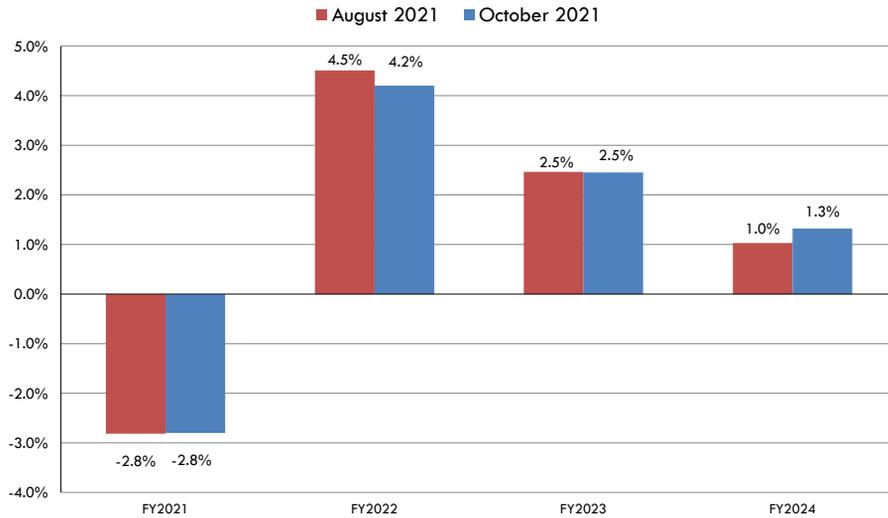
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U.S. Employment – Total Non-Farm Payrolls Control Forecast

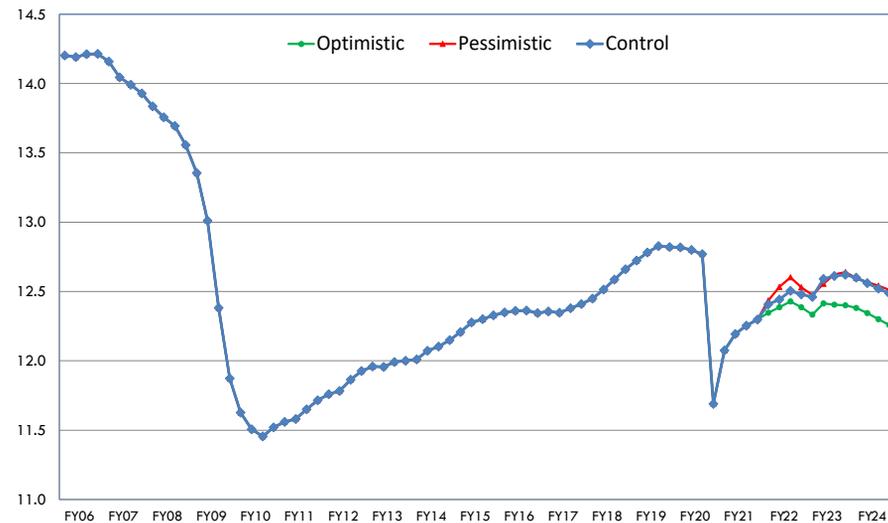
(IHS Markit, Annual Growth Rates)

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U.S. Employment – Manufacturing (Millions, BLS)

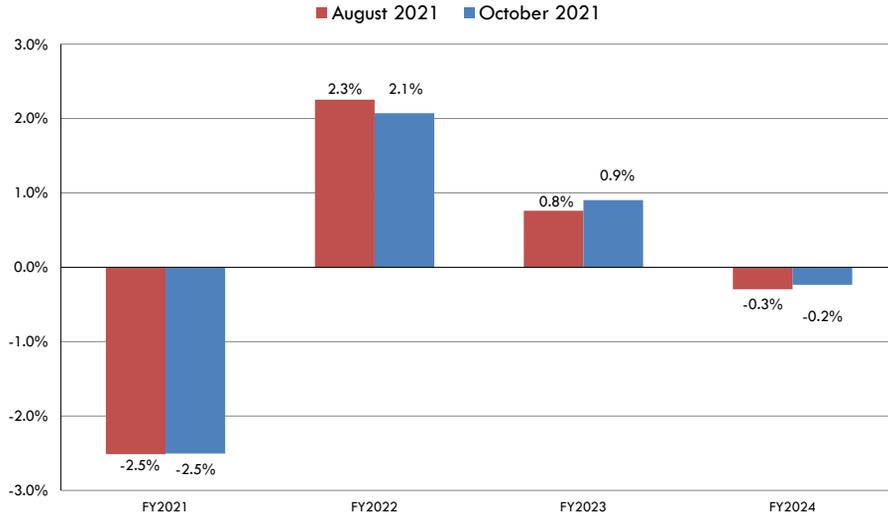
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U.S. Employment – Manufacturing Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

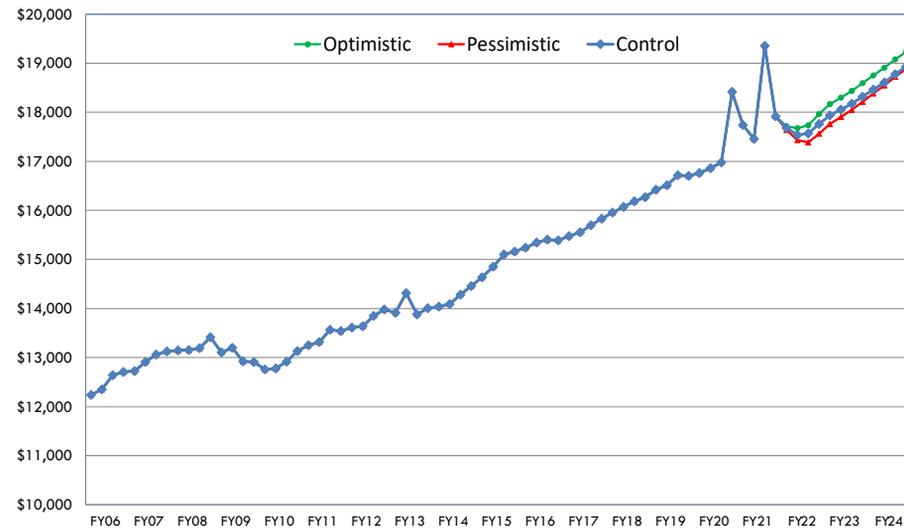
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Real Personal Income

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

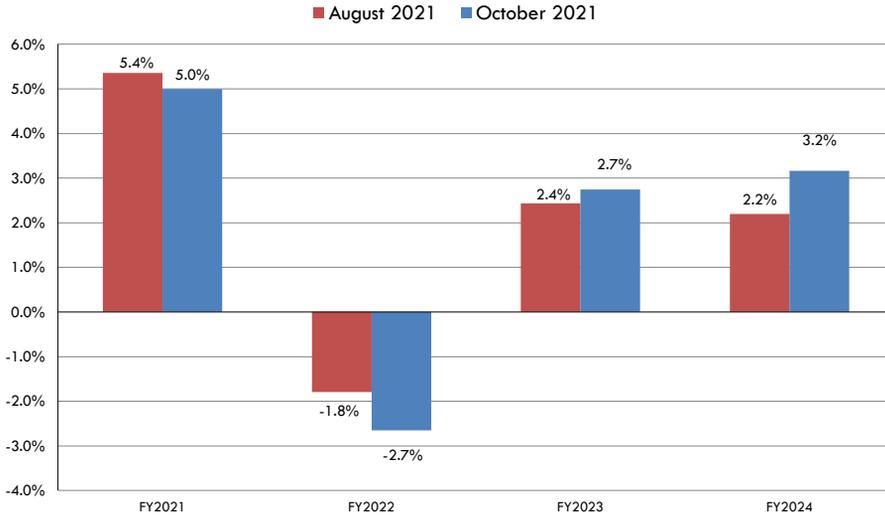
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Real Personal Income - Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

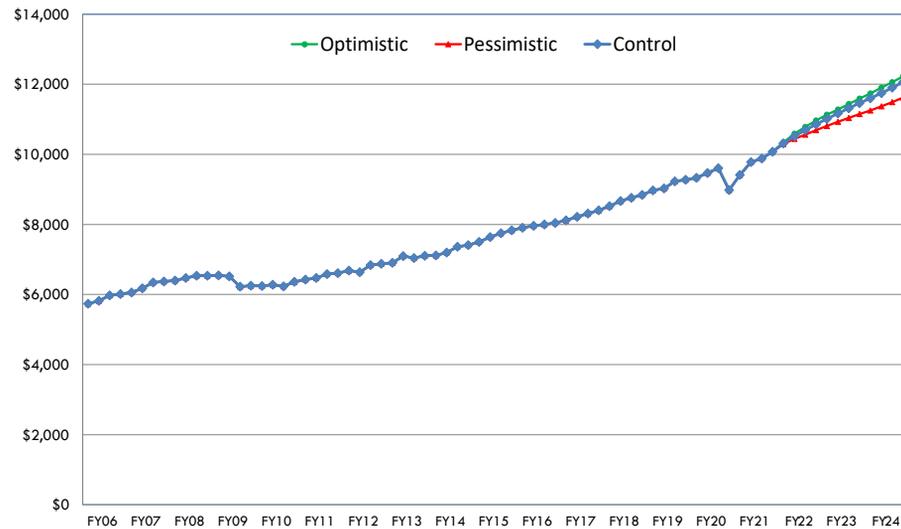
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Wage and Salary Disbursements

(Billions of Dollars, Annual Rate, BEA)

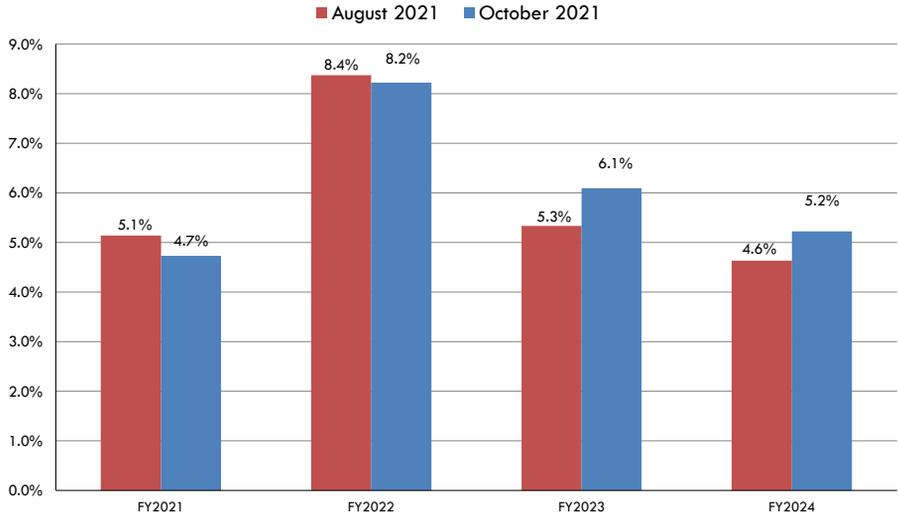
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Wage and Salary Disbursements - Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

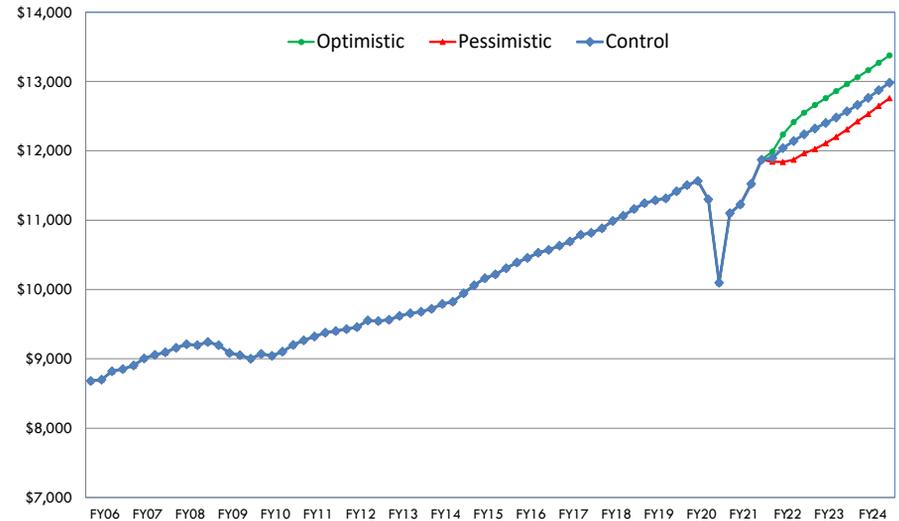
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Real Consumer Spending (Excluding Food and Energy)

(Billions of 2012 Dollars, Annual Rate, BEA)

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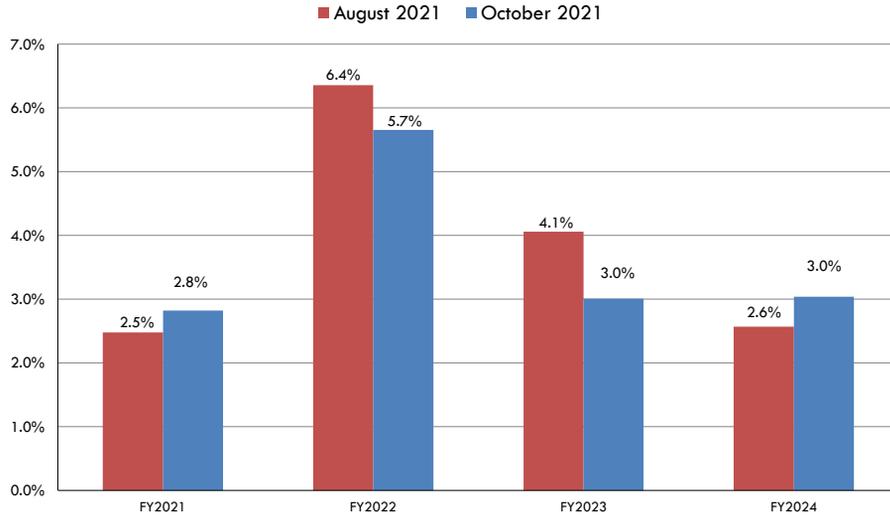


Real Consumer Spending (Excluding Food and Energy)

Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

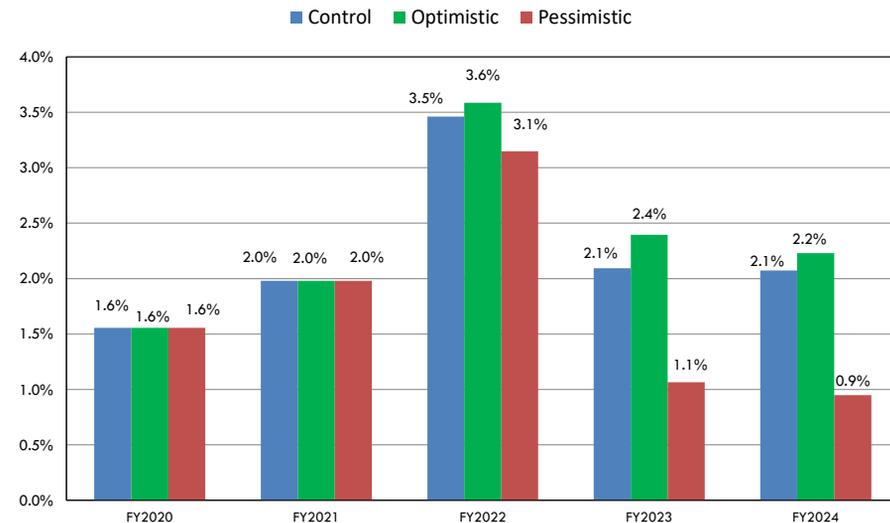
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Chained Price Index - Consumer Spending (Excluding Food and Energy)

(IHS Markit Forecast, Annual Growth Rates)

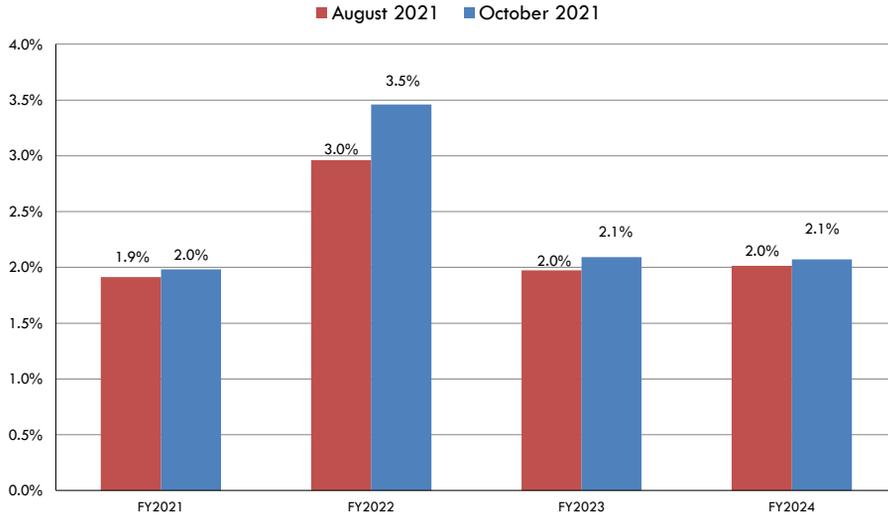
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Chained Price Index - Consumer Spending (Excluding Food and Energy) – Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

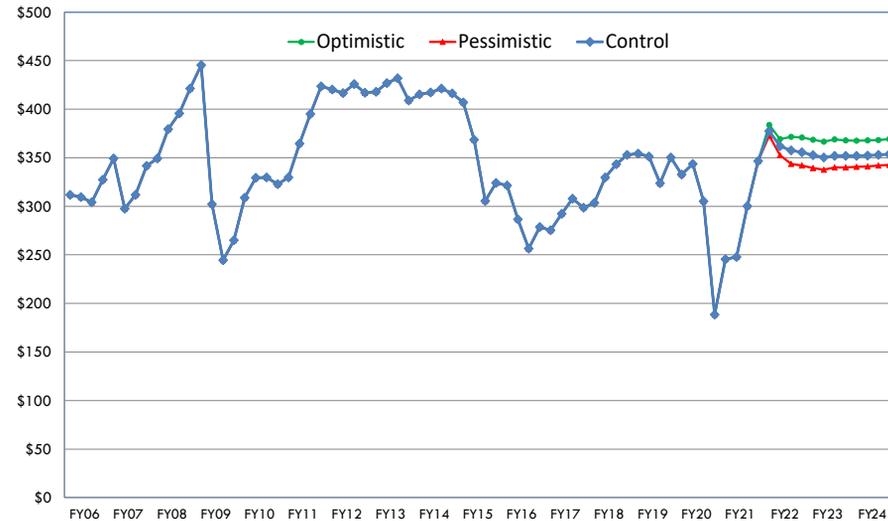
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Nominal Consumption of Gasoline and Oil

(Billions of Dollars, Annual Rate, BEA)

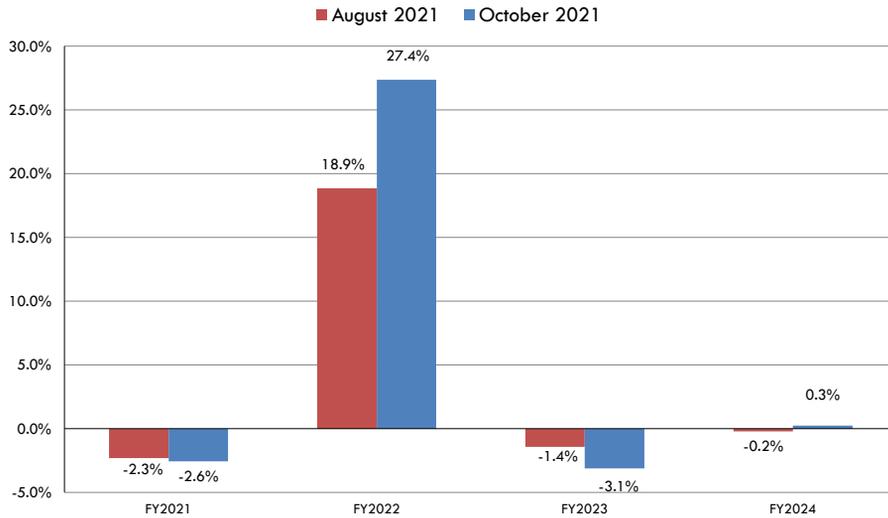
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Nominal Consumption of Gasoline and Oil Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

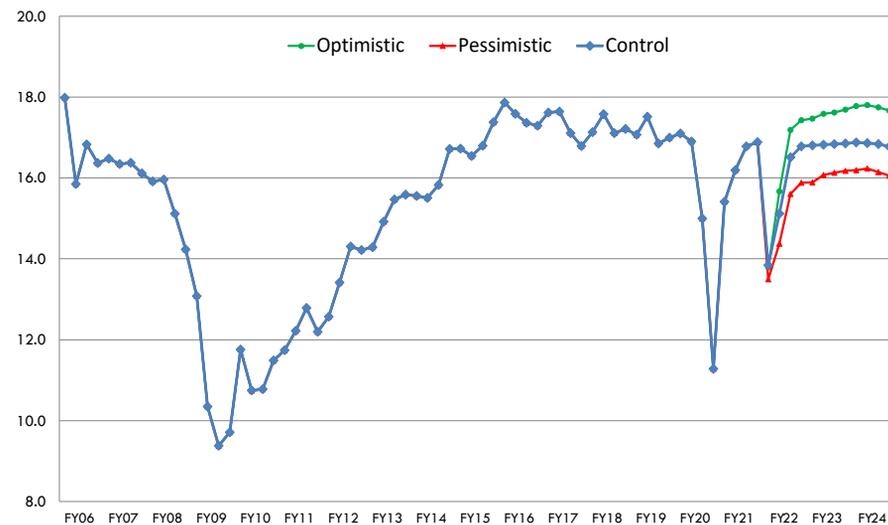
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Unit Sales of New Light Vehicles

(Millions, Annual Rate, BEA)

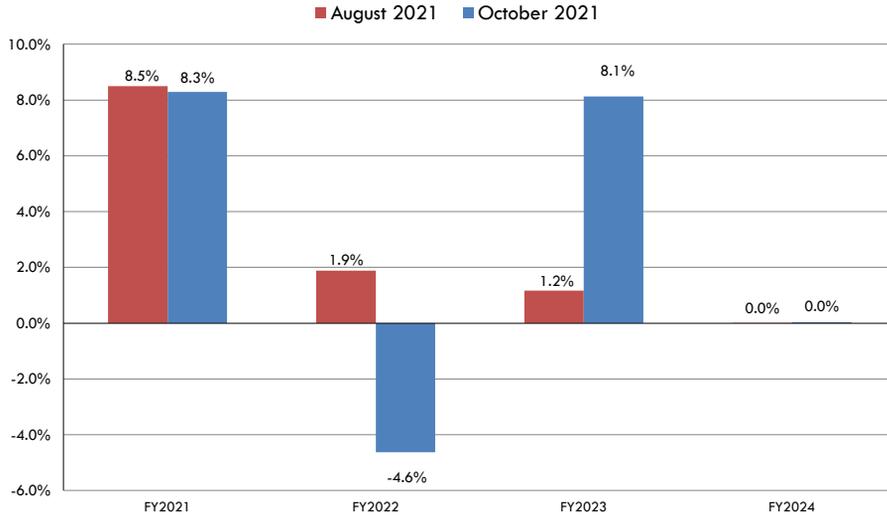
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Unit Sales of New Light Vehicles Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

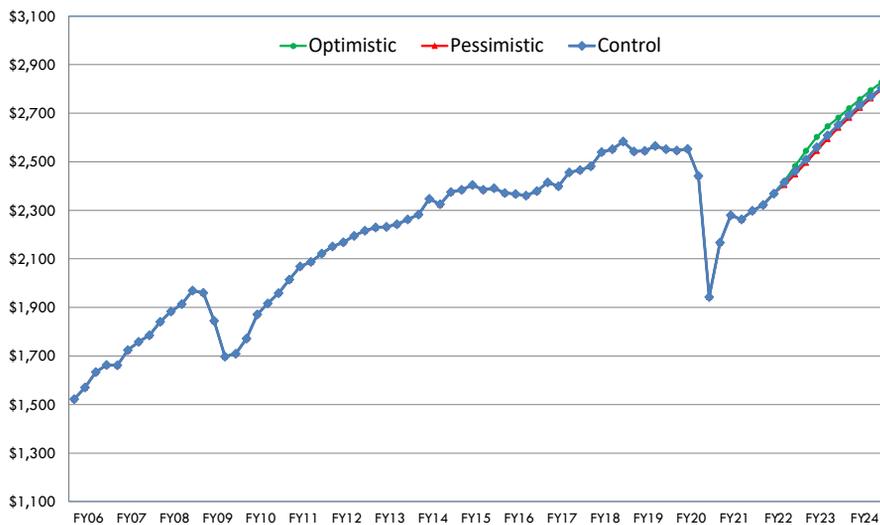
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Real Exports of Goods and Services

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

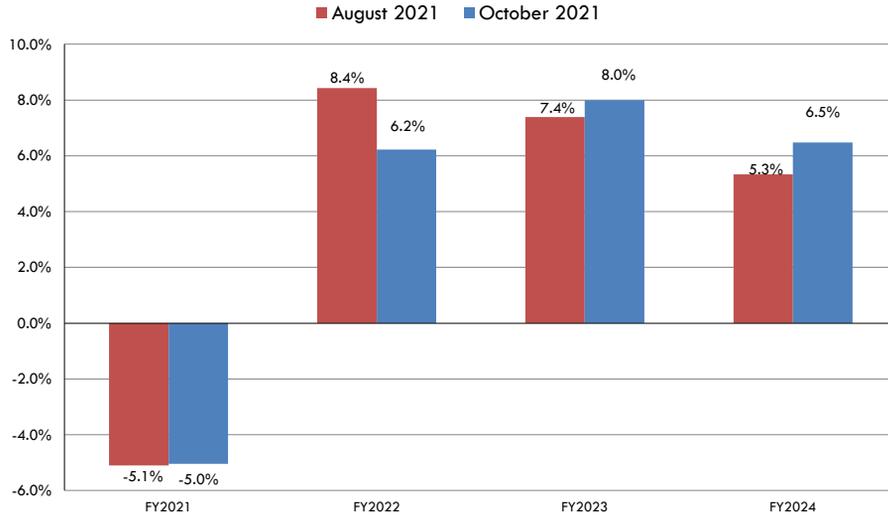
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Real Exports of Goods and Services Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

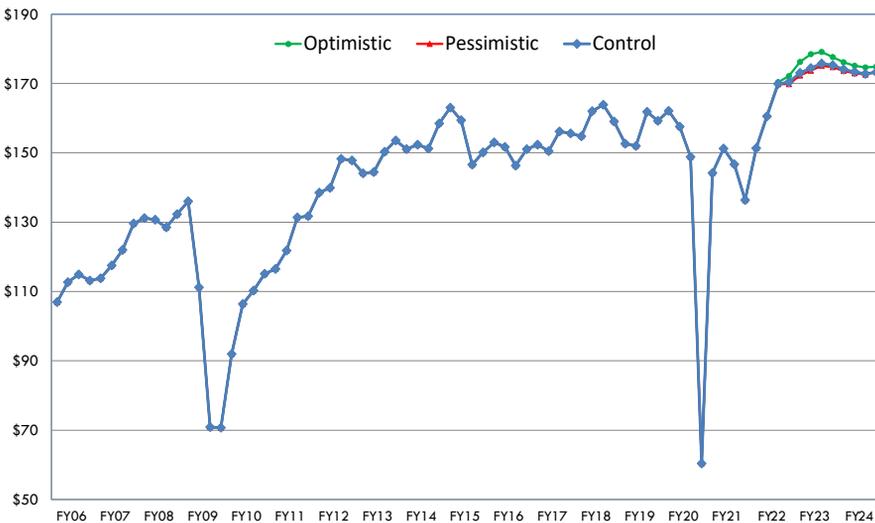
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Real Exports of Motor Vehicles and Parts

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

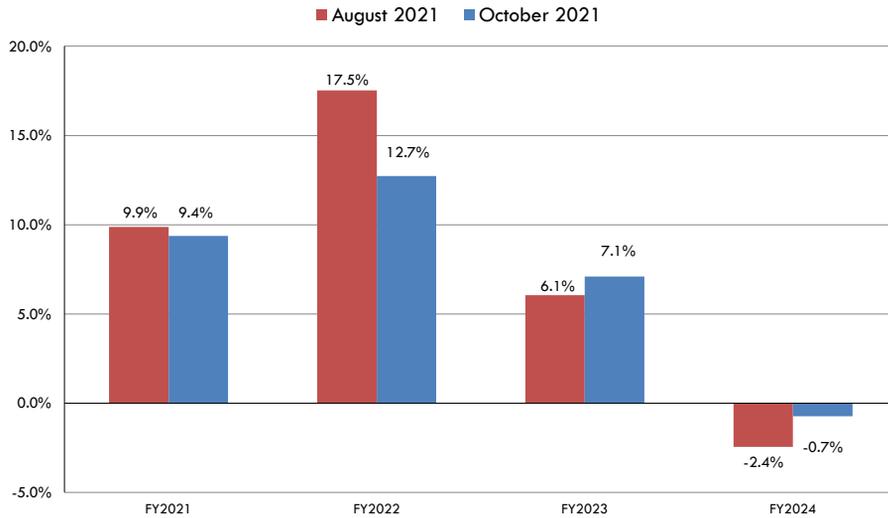
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Real Exports of Motor Vehicles and Parts Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

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KENTUCKY ECONOMIC OUTLOOK

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Key Differences in the Current Forecast

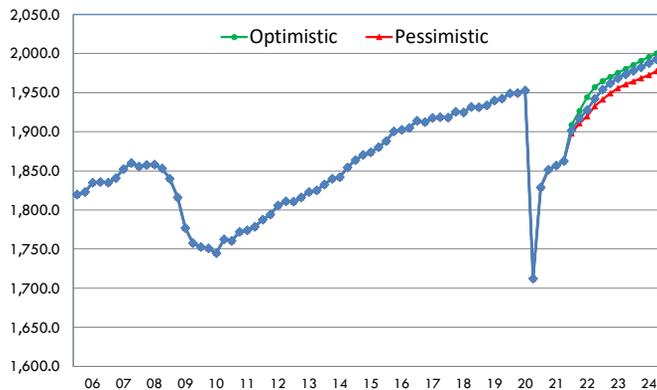
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- Current Fiscal Year Employment Growth Estimates Decline
 - ▣ Largest impact in manufacturing employment – FY22 declines to 2.9% from previous estimate of 3.9%
 - ▣ Cuts to manufacturing production due to ongoing shortages of computer chips and supply-chain issues
- Employment Growth shifts to FY23-FY24
 - ▣ Non-farm employment increases in FY23 and FY24
 - ▣ Strong increase in forecasted manufacturing employment in out years
- Wages and Salaries Growth Estimates Increase
 - ▣ Wages and salaries have continued to show gains as historically low labor force participation rate continues
 - ▣ Current forecast assumes two additional years to regain pre-pandemic levels of labor force participation

Kentucky Non-Farm Employment

(Thousands, KY MAK Model)

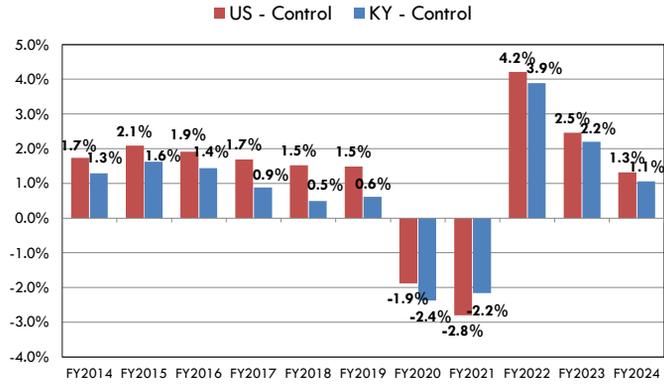
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Non-Farm Employment – US and Kentucky

(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

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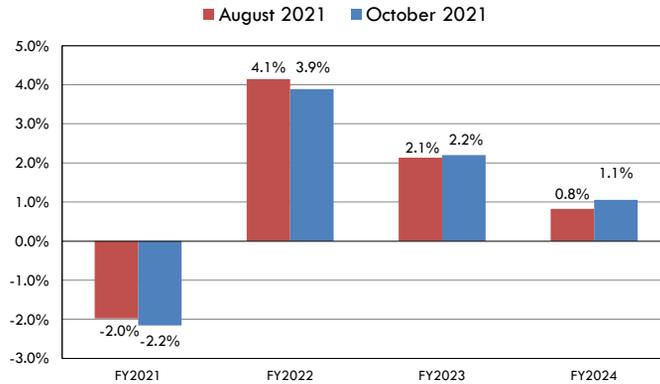


Kentucky Non-Farm Employment

Control Forecast

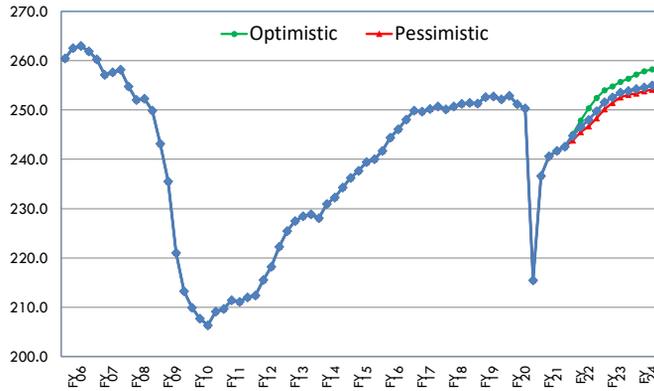
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(KY MAK Model, Annual Growth Rates)



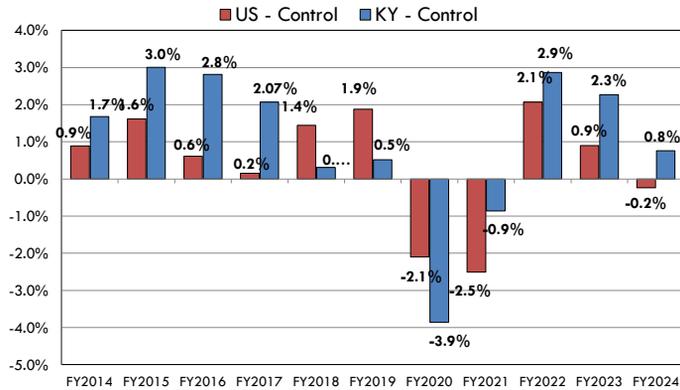
Kentucky Manufacturing Employment (Thousands, KY MAK Model)

33



Manufacturing Employment – US and Kentucky (Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

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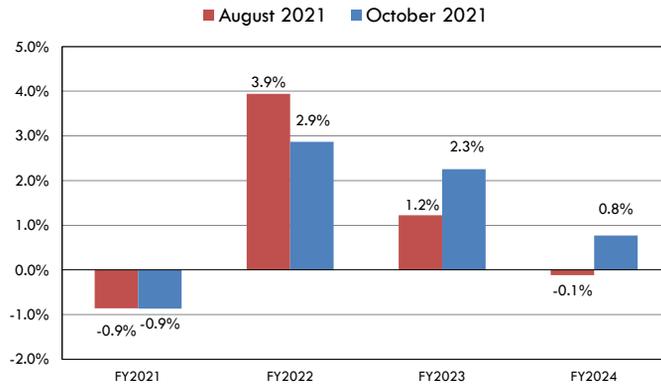


Kentucky Manufacturing Employment

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Control Forecast

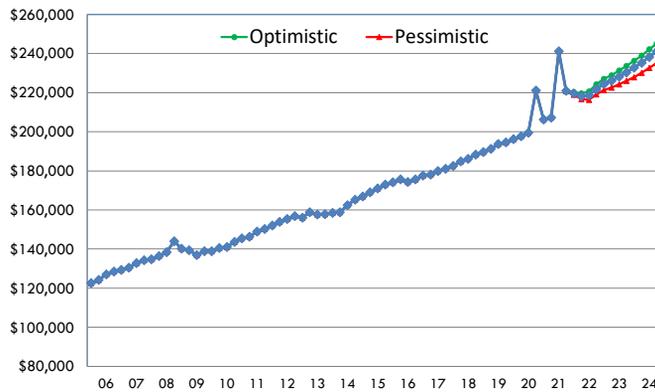
(KY MAK Model, Annual Growth Rates)



Kentucky Personal Income

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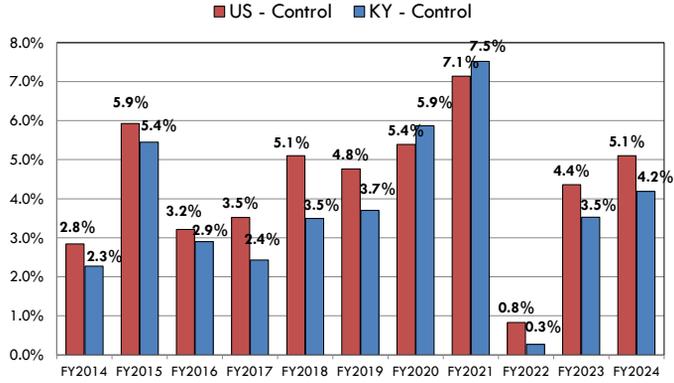
(Millions of Dollars, KY MAK Model)



Personal Income – US and Kentucky

(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

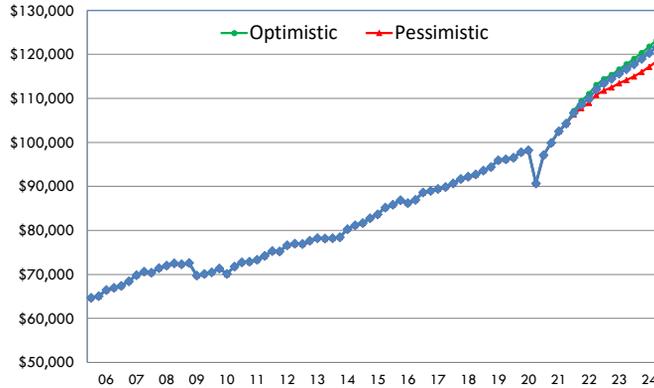
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Kentucky Wages and Salaries Forecasts

(Millions of Dollars, KY MAK Model)

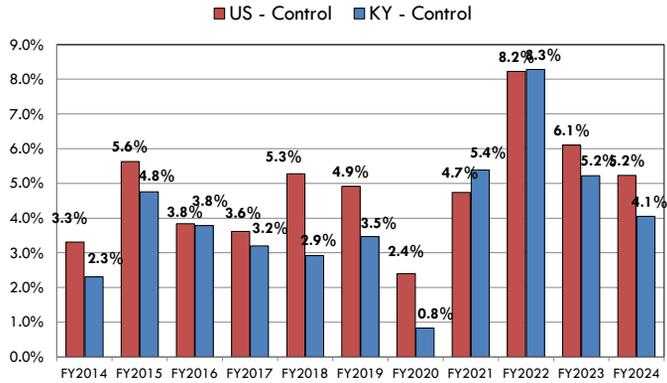
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Wages and Salaries – US and Kentucky

(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

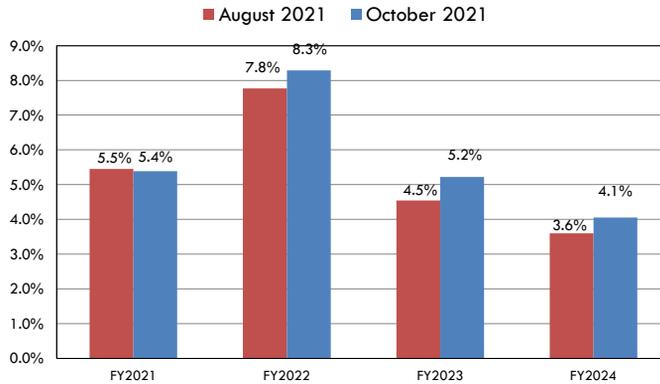
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Kentucky Wages and Salaries Forecasts

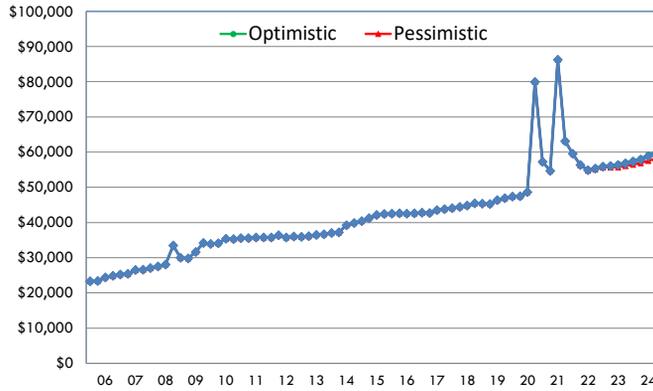
(KY MAK Model, Annual Growth Rates)

40



Kentucky Transfer Payments (Millions of Dollars, KY MAK Model)

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Kentucky Transfer Payments Forecasts (KY MAK Model, Annual Growth Rates)

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